

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08
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E.O. 11652: N/A
TAGS: EFIN, NI
SUBJECT: FMG/BANKS SCHEDULED TO SIGN EURODOLLAR LOAN JANUARY 16

REF: (A) 77 LAGOS 13427, (B) 77 LAGOS 12049, (C) LAGOS 0261

1. EMBOFF DISCUSSED STATUS SUBJECT LOAN WITH LOCAL CHASE MANHATTAN OFFICERS WHO STATED IMPLICITLY THAT BANKS HAD DIFFICULTY NEGOTIATING CONDITIONS PRECEDENT WITH FMG (REF A). IN FACT, THERE WERE FIVE OR SIX POINTS OF CONTENTION. NONETHELESS, ALL HAVE BEEN IRONED OUT AND LOAN NOW SCHEDULED FOR SIGNATURE JANUARY 16.

2. CHASE OFFICERS ADDED THAT MACHINERY FOR QUICK DRAW DOWN OF LOAN ALREADY IN PLACE AND ARE CONFIDENT THAT ENTIRE ONE BILLION DOLLARS WILL BE DISBURSED BY END NIGERIAN FISCAL YEAR, I.E., MARCH 31, 1978.

3. LOAN WILL BE USED MOSTLY FOR GENERAL PURPOSE BUDGET SUPPORT DESPITE PLACEMENT MEMORANDUM LISTING OF SEVERAL PROJECTS WHICH
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WERE SUPPOSEDLY TO HAVE BEEN FINANCED BY LOAN (REF B). CHASE OFFICERS ADMIT THAT PROJECT LIST INCLUDED TO BETTER SELL THE LOAN PROPOSAL TO BANKS OTHERWISE UNWILLING TO UNDERWRITE A GENERAL PURPOSE LOAN TO A FIRST TIME LDC BORROWER.

4. COMMENT: CHASE SPOKESMEN ALSO CONFIRMED EMBASSY REPORT (PARA 4 REF B) THAT PORT PROJECTS ON ABOVE LIST BEING PUT ON

BACK BURNER WHICH ALSO LENDS SUPPORT TO REPORTS (REF C) THAT FMG CUTTING BACK ON CERTAIN DEVELOPMENT PLAN PROJECTS NOT YET CONTRACTED. OTHER PROJECTS ON LIST CAN BE FINANCED ON OWN MERITS, E.G., 980 MILLION DOLLAR HARD CURRENCY COST PETRO-CHEMICAL PROJECT, OR ARE LIKELY TO BE FINANCED BY CONCESSIONAL LOANS, E.G., ALLEGED WORLD BANK 100 MILLION DOLLARS LOAN PARTIALLY FUNDING A NITRO-GENOUS FERTILIZER PROJECT AT PORT HARCOURT. END COMMENTF

5. LOAN WILL PROVIDE ONLY ONE BILLION DOLLARS OF ABOUT FOUR BILLION DOLLARS NEEDED THROUGH END DEVELOPMENT PLAN (1980). THUS CHASE (AND EMBASSY) EXPECT NEW NEGOTIATIONS TO BEGIN SOON AFTER JANUARY 16 SIGNING. LIKELY ANY NEW EURODOLLAR LOAN WILL BE GENERAL PURPOSE ALSO AND IN 300-500 MILLION DOLLAR RANGE. SMALLER NEW LOAN EXPECTED BECAUSE OF GENERAL WARINESS AMONG BANKS AGAINST TOO GREAT A NIGERIAN GENERAL PURPOSE LOAN EXPOSURE. ALSO SOME BANKS, ANTICIPATING FUNDING PART OF PETRO-CHEMICAL PROJECT, MAY NOT WANT TO PARTICIPATE IN OTHER LOANS TO NIGERIA AT THIS TIME. DESPITE WORD OF CAUTION, CHASE BELIEVES A 300-500 MILLION EURODOLLAR LOAN WILL PROBABLY CARRY SIMILAR TERMS AS ONE BILLION DOLLAR ONE (I.E., SEVEN YEAR TERM, THREE YEAR GRACE AT ONE PERCENT OVER INTERBANK RATE) BECAUSE OF STILL LIQUID EURODOLLAR MARKET AND GENERALLY POSITIVE IMPRESSION OF BANKS VIS A VIS NIGERIA AS A BORROWER.

6. COMMENT: AFTER MONTHS OF NIT PICKING DEBATE OVER THE LIMITED OFFICIAL USE

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CONDITIONS PRECEDENT, THE IMMINENT AVAILABILITY OF ONE BILLION DOLLARS WILL GO FAR IN SOLVING NIGERIA'S IMMEDIATE HARD CURRENCY COMMITMENTS AND GENERAL CASH FLOW PROBLEMS. NONETHELESS, THE UNDERLYING BUDGET PROBLEM CAUSED BY THE GOVERNMENT'S POOR PLANNING AND ACCOUNTING REMAINS. NIGERIA STILL CRUCIALLY NEEDS TO PUT ITS STATISTICAL SHOP IN ORDER, PARE DOWN ITS DEVELOPMENT OBJECTIVES AND USE ITS SCARCE RESOURCES MORE EFFECTIVELY. THE TREND IS FOR CONTINUED EMPHASIS ON SEEKING OFFSHORE CREDITS. TO OBTAIN THESE CREDITS, FMG MORE LIKELY TO ACCEPT ADVICE OF IMF AND PRIVATE BANKS TO ELIMINATE GRANDIOSE PROJECTS FROM DEVELOPMENT PLANS AND CONCENTRATE ON REVENUE GENERATING PROPOSALS AND TO REDUCE GROWTH RATE OF DOMESTIC MONEY SUPPLY AND PUT LID ON GROWTH OF FMG BUREAUCRACY. WE HAVE BEEN AWARE OF INCREASING FMG RELIANCE ON GUIDANCE OF IBRD AND IMF AND THUS SUGGEST THAT EFFECTIVE WAY TO INFLUENCE NIGERIAN OFFICIAL THINKING ON DEVELOPMENTAL AND FINANCIAL ISSUES IS THROUGH KESE ORGANIZATIONS. EASUM

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